

“The Economic and Business Case for Ensuring High-Quality Childcare and Preschool”

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From my background as an economist who has done a lot of research on both state and local economic development, and on early childhood programs, I want to present evidence on three arguments today:

- (1) The childcare and preschool sector is in acute crisis today, but has had ongoing problems for some time – and this has had major adverse effects on the U.S. labor market.
- (2) Providing more support for high-quality childcare and preschool can solve these problems, with benefits far greater than costs.
- (3) There is a strong business case, from a perspective of enlightened self-interest, for paying at least part of the cost of addressing this childcare and preschool problem

So, the acute crisis of the childcare sector is that COVID had made it difficult for this sector to staff up and operate at full scale in a reliable manner, and this has caused major problems for U.S. workers and overall labor supply.

If we look at the childcare sector’s overall employment, this “Pandemic recession” caused a unique collapse in employment in the childcare sector, and we are by no means fully recovered. Childcare employment as of February was still over 10% below its prior peak, and probably at least 15 percent below where we would expect it to be based on prior trends.

The problems with the childcare sector have caused major problems for many workers, and thus their employers. For example, in the latest Census data from early February, of households in Michigan who had kids under age 5, 23 percent reported that in the prior 4 weeks, they had a kid unable to attend childcare for some reason. Workers took unpaid or paid leave, cut their workhours, either left or lost their job, or decided they couldn’t look for a job. (Note that these percentages don’t add up to 23 percent because many workers experienced multiple consequences.) This significantly restricts the availability of labor supply to the Michigan economy, and causes major problems for employers in finding workers who can reliably show up at work.

But this current crisis shouldn’t cause us to overlook the long-run crisis, which is that U.S. childcare and preschool is too high cost, yet pays its workers too little to be able to consistently maintain high-quality. As this chart shows, childcare for children under age 5 in Michigan is very expensive, with full-time full-year care costing in the neighborhood of \$10,000 per year, varying with age and setting.

Yet at the same time, the workers in the early education sector are paid too little to be able to get

and keep high-quality workers. Workers in childcare are paid only \$11 or \$12 per hour, and in preschool only \$15 per hour. I think it's somewhat ironic that this pay is about what we pay animal trainers or animal caretakers.

The reason for high costs, despite low pay, is that in early childhood programs, we need to have very low class sizes, or ratios of children to care workers or teachers, in order to maintain even minimally acceptable levels of quality. And the sector is very labor intensive, with over 60 percent of its costs being labor costs. So, if we want to increase wages of childcare workers or preschool teachers by 10 percent, we need to increase the price charged for childcare or preschool by at least 6 percent.

The high and growing costs for childcare and preschool in the U.S. are causing us significant international competition problems. The U.S. showed a strong rise in women's labor force participation from the 1960s until the late 1990s, but since then that participation has stagnated. In recent years, other countries have either gained relative to the U.S., or forged ahead. In many cases, that is because the country has more extensive supports for subsidizing affordable high-quality childcare and preschool. In Norway for example, the nation supports childcare and preschool centers starting at age 1 that are subsidized for everyone, with the subsidy then going up for lower-income Norwegian families.

We can solve this labor supply problem, if we have sufficient will to provide the needed funds while insisting on high-quality childcare and preschool. Solving this will provide benefits for parents, children, the taxpayers, the business community, and the overall economy and society.

Consider the example of the District of Columbia, which from 2009 to 2011 expanded preschool so that it was universal for all 3- and 4-year-olds. This means that it was free for 6.5 hours per day and 180 days per year, with fees for after-care of more than 6.5 hours, and for summer months.

What effect did this have on women's labor force participation? Suppose we look at women with any child under the age of 5, of whom some of course have a 1- or 2-year-old and hence were unaffected in the short-run by universal pre-K for 3- and 4-year-olds. If we compare DC to the average of similar cities that had similar pre-trends in female labor force participation, we find that women's labor force participation rates jumped by about 10 percentage points, which is a 15 percent in labor supply of these women to the DC economy.

Or consider the case of the Abecedarian program in North Carolina. This was a full-time universal childcare and preschool program, begun in 1972, that was done as a randomized control trial which has followed both the parents and their children ever since.

What do the results of this experiment show? In essence, this program, which cost about \$12,000 per year per child, yielded benefits that are at LEAST four times as great. Parents got increased earnings, and even after paying extra taxes, and receiving fewer income transfers, their net income went up by a lot. Children gained even more. And the government gained fiscal benefits in higher taxes and reduced income transfers, offsetting 78 percent of the program's gross costs.

This analysis is narrow and overlooks over benefits that increase the benefit cost ratio beyond 4 to 1, so that the program might be self-financing. The analysis overlooks:

- Reductions in crime, which save huge costs for both victims and the government
- Business cost-savings due to lower employee turnover, less worker absenteeism, more productive workers on the job due to reliable high-quality care, and the ability to more effectively recruit productive workers, all of which saves significant labor costs.

Why do these benefits occur? For parents in childcare and preschool, one thing to emphasize is that the benefits do not occur ONLY while their child is enrolled in subsidized childcare and preschool. Rather, these benefits are long-term. In the short-run, reliable and affordable high-quality childcare and preschool enables parents to either work or go back to school, either of which increases long-run employment or earnings. Both work experience and education pay off in the labor market.

By the time their child was age 21, the treatment group of mothers in Abecedarian was 50 percent more likely than the control group to have obtained some post-high-school education, increasing from a little over one-third to a little over one-half. By the time their children were 15, the percentage working increased by 19 percent, from 72 percent in the control group to 86% in the treatment group.

For children, what is important to stress is that the increase in adult earnings is not solely due to test score increases. In fact, test score increases seem to fade. In a variety of early childhood programs, if we use test scores at kindergarten entrance to predict adult earnings increases, we get a significant under-prediction. And if we use test score effects at grade 3, we get even more of an under-prediction.

What is going on is that a lot of the effects of early childhood programs depend on getting the child off to a good start not only in academics, but in terms of their relationships with their peers and with their teachers – that is, high-quality early childhood programs not only develop so called “hard skills”, but also so-called “soft skills”. The child who is better at both hard skills and soft skills entering kindergarten is more likely to feel successful there, and will learn more in kindergarten, and this success feeds on itself. As Nobel-prize-winning economist James Heckman said, “Success begets success”.

So, to summarize so far: we have a problem: an inadequate supply of high-quality and affordable childcare and preschool, which causes major problems for workers, employers, and the economic competitiveness of the U.S. And we have a solution: greater support for making sure that high-quality and affordable childcare and preschool is available for all. And this solution has been shown to work in numerous rigorous research studies.

So, what do we do? In my opinion, there is a strong case for a program that would do so, and would involve government, families, and business all sharing the cost. I realize that in politics, it often is tempting for everyone to want the benefits of some program, but to want “someone else” to bear the costs. As the late Senator Russell Long, longtime chair of the Senate Finance Committee once said, when it comes to taxation, people’s attitude is often “don’t tax you, don’t

tax me, tax that fellow behind the tree”. But I think at some point we need to come together, and recognize that we all share some of the benefits from addressing this problem, and we all should bear some of the costs.

For business, you can make the case that from a standpoint of “enlightened self-interest”, individual businesses should be willing to pay a portion of the costs of ensuring high-quality childcare and preschool, even if not all the costs. Paying a portion of the costs may be the best way to maximize long-run profits.

What are the business gains from helping ensure high-quality childcare and preschool for their employees?

First, there is the saving in employee turnover costs. From studies, the costs of employee turnover – costs due to a vacancy, costs of finding a new employee, costs of training them over time to the job’s productivity standard – average about 20% of employee compensation, for a wide range of jobs.

So, if total compensation was \$60,000 for a job, and you knew for certain that providing childcare for that employee would avoid them leaving the job, an employer would save \$12,000 in costs, and that would rationalize paying for 100% of full-year childcare costs. Of course, in the real world, you don’t move turnover costs from a certainty of turnover to zero probability, but clearly turnover costs along justify a substantial investment in childcare and preschool.

Second, there are the costs of employee absenteeism. Unreliable childcare forces workers to miss hours or days, and this is costly to employers – exactly how costly obviously depends upon the nature of the production process at the firm, but it easily could be at least as much as the wages per hour of the employee times the lost hours, and maybe more.

Third, there are the productivity benefits that occur if workers are less worried about the quality and reliability of their child’s childcare and preschool arrangements. Hard to quantify this exactly, but it no doubt is substantial.

Fourth, helping provide, subsidize, or facilitate better and more reliable childcare and preschool can be a fringe benefit that is very attractive to potential employees. By increasing applicants per job, the effective labor supply to the firm, a business is able to increase the productivity of who it hires without increasing its wages. Again, for many businesses, this will be quite valuable.

Now, I should add that I also think others should also share some of the costs of high-quality childcare and preschool. Parents benefit, and if they can reasonably afford to pay some share of the costs, there is nothing wrong with charging reasonable fees. Government reaps fiscal benefits – higher tax revenues and lower transfer costs -- from greater availability of high-quality childcare and preschool, and so government at all levels – federal, state, and local – should pay some of the costs. Society as a whole benefits from childcare and preschool leading to lower crime and a more competitive local and national economy, and so the general taxpayer should be willing to pay some costs even beyond the fiscal benefits.

But the business role is crucial. Both individual businesses and the business community as a whole should help provide leadership on this childcare and preschool issue.

Individual businesses should see if providing both financial support and in-kind support makes sense for that business, as an enlightened way of both helping the business's employees while also helping the business's bottom-line. Look into federal and state programs that might help subsidize SOME of your business's costs in doing so, such as the federal Employer-Provided Child Care Credit, or the Michigan Tri-Share Child Care Pilot Program. I don't have time to go into the details of these programs, but if you are interested, you definitely should talk to Kristyn Buhl-Lepisto of KC Ready4s, and Kathy Szenda-Wilson of Pulse about how these programs work.

The business community should make childcare and preschool part of the business agenda. When business groups lobby local, state, and federal governments for measures to improve the business climate, they should clearly say the following: one of the best ways of improving the business climate for businesses to be productive is for the government to be a partner in helping ensure the availability of high-quality affordable childcare and preschool. Government works best to encourage economic development when it helps ensure that businesses have all the inputs they need, at a reasonable cost. And there is no input more important to business success than the availability of a high-quality labor supply. Of course, a high-quality labor supply depends upon many public policies. But one public policy that we know enhances high-quality labor supply – and that we know how to do well – is making high-quality childcare and preschool available. Let's have the political will to take policy actions that we know pass a benefit-cost test, and that we know how to do. Thank you.